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12 HEALTH CARE DISTRICT

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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

13 In re:
14 SURPRISE VALLEY HEALTH CARE
15 DISTRICT
16 Debtor.

CASE NO. 18-20070
Chapter 9
DCN: SVH-11

**MOTION TO APPROVE SETTLEMENT
BETWEEN DEBTOR SURPRISE
VALLEY HEALTH CARE DISTRICT
AND CADIRA GROUP HOLDINGS, LLC**

DATE: December 18, 2019
TIME: 2:00 p.m.
CTRM: 32

Judge: Hon. Christopher D. Jaime

1 **TO THE HONORABLE CHRISTOPHER D. JAIME, UNITED STATES BANKRUPTCY**
2 **JUDGE:**

3 Surprise Valley Health Care District (the “District” or the “Debtor”), the debtor in the
4 above-captioned Chapter 9 case (the “Chapter 9 Case”), hereby moves the Court for the entry of
5 an order on its *Motion to Approve Settlement Between Debtor and Cadira Group Holdings, LLC*
6 (the “Motion”).

7 Pursuant to Rules 1001 and 9019 of the Federal Rules of Bankruptcy Procedure, the
8 District requests that the Court enter an order (the “Settlement Order”) approving the full
9 resolution of all claims and dispute between itself and Cadira Group Holdings, LLC (“Cadira”)
10 (and collectively with the District, the “Parties”), pursuant to the Settlement Agreement and
11 Mutual Release (“Settlement Agreement”) attached to the Appendix of Exhibits (the “Appendix”)
12 as **Exhibit A**.

13 As set forth more fully in the *Memorandum of Points and Authorities In Support of the*
14 *Motion* (the “Memorandum”) filed concurrently with the Motion, early in this case, the District
15 sought, and obtained, Court approval to enter into a series of transactions (the “Transactions”)¹
16 that would culminate in a sale of substantially all of the District’s assets to Cadira (the “Sale”),
17 who would then operate the Hospital and Clinic for the benefit of the District’s residents. In
18 furtherance of the Transactions, the District entered into the Credit Agreement wherein Cadira
19 financed the District’s purchase of member interests in a lab owned by Cadira, executed a
20 management agreement whereby Cadira would manage the lab, and received approximately
21 \$743,000 for operations. The Lab Purchase from Cadira was intended to allow for further streams

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23 ¹ The Transactions consist of the following agreements: (i) the Credit Agreement, between the
24 District, as borrower, and Cadira as lender, attached to the Appendix as **Exhibit B**; (ii) a Limited
25 Liability Company Purchase Agreement, between the District, as purchaser, and Cadira, as seller
26 (the “Lab Purchase Agreement”) attached to the Appendix as **Exhibit C**; (iii) the Lab
27 Management Agreement, between the District as owner, and Cadira, as manager (the “Lab
28 Management Agreement”) attached to the Appendix as **Exhibit D**; and (iv) the APA between the
District, as seller, and Cadira, as purchaser attached to the Appendix as **Exhibit E** (together with
the Credit Agreement, the Lab Purchase Agreement, the Lab Management Agreement, the
“Agreements”).

1 of revenue. The Transactions were all incidental to the proposed Sale of the District's assets to
2 Cadira. The Sale structure allowed the Hospital to continue operating pending closing and funded
3 approximately \$743,000 in operating expenses. If the Transactions had closed, the Sale would
4 have provided for the full repayment of secured indebtedness and partial repayment of general
5 unsecured creditors. Due to changed circumstances, Cadira was unable to effectuate the purchase
6 of the District's assets under the APA. After evaluating the information and upon further
7 negotiation, counsel for Debtor concluded that the Settlement Agreement is in the best interests of
8 the Debtor and its creditors, and avoids the uncertainty and expense of further litigation. The
9 following is a brief summary of the key terms of the Settlement² agreed to by the Parties:

10 A. Rescission of the Lab Purchase Agreement.

11 The Parties agree to rescind the Lab Purchase Agreement (the "Rescission"), and each
12 Party shall take the necessary steps to ensure that all payments, benefits, or gains received through
13 the Lab Agreements are returned to the other party, except that the District shall retain the right to
14 collect on \$440,000 of patient charges generated as a result of work performed by the Lab and
15 invoiced under the Hospital's billing system during the period in which the Lab Agreements were
16 in effect. Cadira shall return the Lab Purchase Price of \$2,500,000 to the District (the "Lab
17 Credit").

18 B. Termination of the Lab Management Agreement.

19 The Parties will terminate the Lab Management Agreement concurrent with rescission of
20 the Lab Purchase Agreement.

21 C. Termination of the APA.

22 The Parties will terminate the APA.

23 D. The Credit Agreement.

24 The Parties agree that the Lab Credit shall be immediately applied to discharge the Lab
25 Indebtedness. In partial repayment of the \$743,000 advanced to the District by Cadira, the District

26 ² This summary does not modify the terms of the Settlement Agreement and is included for
27 convenience only. For further information, please reference the Settlement Agreement, attached
28 as Exhibit A to the Appendix.

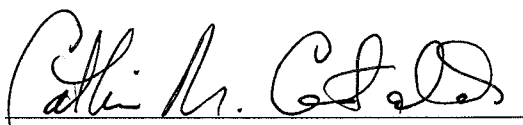
1 shall make a single payment of \$300,000 to Cadira (the "Cash Settlement Amount"). The balance
2 of the Credit Line Advance, less the Cash Settlement Amount, shall be repaid in full as an offset
3 against the District's expenses and the District's expenses shall correspondingly be deemed repaid
4 in full as a result of such offset. Upon receipt of the Cash Settlement Amount, all security
5 interests and liens granted to Cadira in or on any asset of the District shall be terminated, released,
6 and discharged in full. [Settlement Agreement at 1.]

7 The Motion is based upon the concurrently filed Memorandum, the Declarations of
8 William Bostic and Don Brandon, the record in this case, including all pleadings filed by the
9 District, the arguments and representations of counsel, and any oral or documentary evidence
10 presented at or prior to the time of the hearing.

11 The District believes that the proposed settlement is in the best interest of creditors and the
12 Debtor, and respectfully requests that this Court approve the Settlement Agreement and grant the
13 Motion.

14 DATED: October 22, 2019

BROWN RUDNICK LLP

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17 By: 
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19 Attorneys for SURPRISE VALLEY HEALTH
20 CARE DISTRICT
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